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AGENCY FOR INTERNATIONAL DEVELOPMENT
OFFICE OF THE REGIONAL INSPECTOR GENERAL FOR WEST AFRICA

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February 22, 2000

MEMORANDUM

TO: Director, USAID/Ghana, Frank Young

FROM: RIG/Dakar; *Henry Barrett*

SUBJECT: Audit of USAID/Ghana's Implementation of the
Federal Managers' Financial Integrity Act, Report
No.7-641-00-003-P

This is our final report on the subject audit. The report contains two recommendations. The Mission has taken the appropriate final action to address these recommendations and no further action is required. Your comments are included in the report as Appendix II.

I appreciate the cooperation and courtesies extended to my staff during the audit.

Background

The Federal Managers' Financial Integrity Act of 1982 (FMFIA) establishes requirements with regard to management accountability and control. This law encompasses program, operational, and administrative areas as well as accounting and financial management. Under the authority of the FMFIA, the Office of Management and Budget (OMB) issued Circular No. A-123 to provide detailed guidance for assigning Federal managers the responsibility for designing management structures that help ensure accountability and include appropriate cost-effective controls.

OMB Circular No. A-123, Management Accountability and Control, states that management controls are the organization, policies and procedures used to reasonably ensure that (1) programs achieve their intended results; (2) resources are used consistent with agency mission; (3) programs and resources are protected from waste, fraud, and mismanagement; (4) laws and regulations are followed; and (5) reliable and timely information is obtained, maintained, reported and used for decision making. The Circular provides guidance to Federal managers on improving the accountability and effectiveness of Federal programs and operations by

establishing, assessing, correcting, and reporting on management controls.

USAID has issued Automated Directives System (ADS) Chapter 596, Management Accountability and Control, which provides the Agency's policy and procedures for establishing, assessing, correcting, and reporting on management controls under the FMFIA and OMB Circular No. A-123. Additional guidance for assessing the adequacy of management controls and annual instructions for reporting the status of management controls are periodically provided by USAID's Bureau for Management's Office of Management Planning and Innovation (M/MPI).

Audit Objectives

The Office of the Regional Inspector General, Dakar (RIG/Dakar) performed this audit as part of the Office of the Inspector General's decision to audit USAID's implementation of FMFIA. Specifically, we audited USAID/Ghana to answer the following audit objectives:

- Has USAID/Ghana established management controls and periodically assessed these controls to identify deficiencies in accordance with the Federal Managers' Financial Integrity Act and related regulations and guidance?
- Has USAID/Ghana reported material weaknesses in accordance with the Federal Managers' Financial Integrity Act and related regulations and guidance?
- Has USAID/Ghana taken timely and effective action to correct identified management control deficiencies in accordance with the Federal Managers' Financial Integrity Act and related regulations and guidance?

Appendix I includes a discussion of the scope and methodology for this audit.

Audit Findings

Has USAID/Ghana established management controls and periodically assessed these controls to identify deficiencies in accordance with the Federal Managers' Financial Integrity Act and related regulations and guidance?

USAID/Ghana has established management controls and periodically assessed these controls to identify deficiencies in accordance with the FMFIA and related regulations and guidance.

As stated above, the FMFIA and OMB Circular No. A-123 provides guidance for use by agencies and managers to, among other things, establish management controls and to periodically assess the adequacy of those controls. Further, ADS Chapter 596, "Management Accountability and Control," instructs missions and cognizant managers to: (1) appoint a Management Control Official (MCO) to oversee and coordinate management accountability and control issues within the mission; (2) ensure that appropriate and cost-effective management controls are established; (3) continuously perform management control assessments in accordance with instructions issued by USAID's Bureau for Management's Office of Management Planning and Innovation (M/MPI); and (4) establish a Management Control Review Committee (MCRC) to assess and monitor deficiencies in management controls.

Moreover, M/MPI provides annual guidance to missions for conducting FMFIA reviews. In conducting reviews, missions are instructed to use existing sources of information to supplement management's judgment in assessing the adequacy of management controls, including:

- 1) management knowledge gained from daily operation of USAID's programs and systems;
- 2) management reviews;
- 3) Office of Inspector General and General Accounting Office reports; and
- 4) program evaluations.

Missions are also instructed to review the ADS in determining mission compliance with USAID policies and essential procedures. M/MPI provides a Management Control Checklist to assist in conducting the reviews. The Fiscal Year 1998 Checklist contained 163 control techniques extracted from the ADS.

In implementing the ADS, USAID/Ghana had appointed the Controller as the MCO to oversee and coordinate management accountability and control issues within the Mission. The Mission had also established a MCRC comprised of Office Managers and headed by the Deputy Mission Director to provide oversight of its management control process.

According to Mission officials, the Mission primarily follows the policies and procedures as stated in USAID's ADS. When deemed necessary, the Mission issues Mission Orders, General Notices and memos to complement or further clarify the ADS and to establish any needed policies and procedures. For example, a Mission Order was issued to establish procedures for ensuring USAID/Ghana's compliance with USAID regulations and policies governing the monitoring and reporting of Host Country Contributions. In other cases, USAID/Ghana's Office of Financial Management (OFM) has written procedures to control processes such as the Section 1311 Review and trust fund procedures.

USAID/Ghana took an organized and thorough approach in completing the Fiscal Year 1998 FMFIA Assessment. As the lead office, OFM prepared a timetable for conducting the review and specified specific deadlines for the participants. The USAID/Ghana Controller formally transmitted the M/MPI checklist containing 163 control techniques along with instructions to cognizant offices within the Mission. The following table highlights the areas addressed by these control techniques.

CONTROL TECHNIQUES	
CATEGORY	NUMBER
Program Assistance	37
Organization Management	7
Administrative Management	40
Financial Management	44
Acquisition and Assistance	27
Audit Management Resolution Program	5
Other	3
TOTAL	163

Upon receipt of the checklist, each office or strategic objective team determined whether the controls in their assigned areas were satisfactory and noted any deficiencies. The office/team then summarized their evaluations on a control technique worksheet, which was submitted to OFM. After receiving this evaluation, the cognizant OFM financial analyst reviewed and validated both the ratings of controls and the conclusions reached. These conclusions were subsequently reviewed by the Mission's MCRC, which determined what actions should be taken on deficiencies and whether any deficiencies should be considered material weaknesses which must be reported to the Assistant Administrator for Africa (AA/AFR).

In addition to the annual FMFIA review, the Mission routinely assessed its controls as an integral part of its management process. Additionally, the Mission requested that USAID/Washington perform an assessment of the Mission's operations. In response to the Mission's request, in January 1999 a USAID management assessment team from Washington performed an assessment that was conducted as a peer review of all administrative, logistical, contracting and financial management systems used by the Mission.

Has USAID/Ghana reported material weaknesses in accordance with the Federal Managers' Financial Integrity Act and related regulations and guidance?

In accordance with the Federal Managers' Financial Integrity Act (FMFIA) and related regulations and guidance the Mission reported no material weaknesses in its Fiscal Year 1998 FMFIA certification conducted in October 1998.

The Office of Management and Budget (OMB) Circular No. A-123 requires that a management control deficiency should be reported if it is or should be of interest to the next level of management. This allows the chain of command structure to determine the relative importance of each deficiency. Along these lines, USAID's ADS Chapter 596 and M/MPI's Fiscal Year 1998 Instructions require that Missions provide a FMFIA certification to the cognizant Assistant Administrator¹, with a copy to M/MPI, on the overall adequacy and effectiveness of management controls. This certification should identify management control deficiencies determined to be material weaknesses, including those that are not correctable within the Mission's authority and resources.

Has USAID/Ghana taken timely and effective action to correct identified management control deficiencies in accordance with the Federal Managers' Financial Integrity Act and related regulations and guidance?

USAID/Ghana has taken effective action to correct deficiencies it identified during its Fiscal Years 1997 and 1998 reviews. The Mission prepared corrective action plans for deficiencies identified in its 1997 and 1998 reviews and held periodic meetings to discuss the corrective actions. However, not all of the deficiencies were corrected in a timely manner and the documentation of the Mission's review and approval of the corrective actions could be improved.

Deficiencies need to be corrected in a timely manner

OMB and USAID guidance require that corrective action plans for identified management control deficiencies be developed and managers track progress to ensure timely and effective

¹ For USAID/Ghana, the cognizant Assistant Administrator is the AA/AFR.

results. Although the Mission corrected identified management deficiencies, the corrections were not always performed in a timely manner. Excessive amounts of time were needed to complete many of the actions. This occurred because the MCRC did not closely track the resolution dates and document adjustments when they were made. As a result, identified deficiencies remained uncorrected for long periods of time and placed the Mission at greater risk.

Recommendation No. 1: We recommend that USAID/Ghana establish documented procedures to ensure that the Management Control Review Committee monitors the corrective action plan resolution dates and in those instances when the corrective action is not completed by the original resolution date, document why the resolution dates were not met and revise the target resolution dates accordingly.

OMB Circular No. A-123 and USAID's ADS Chapter 596 state that agency managers are responsible for taking timely and effective action to correct identified deficiencies. USAID/Ghana did take the appropriate action in correcting deficiencies identified in its Fiscal Year 1997 and 1998 FMFIA reviews, however, some of the corrective actions were not completed in a timely manner.

For this audit we are defining "timely" closure as being corrective action having been taken by the Mission within six months of the initial planned completion date. We believe the Mission is in the best position to determine realistic completion dates for actions to correct identified control deficiencies. Accordingly, for the purposes of this audit, if a deficiency is not closed within six months of the Mission's established planned closure date, we believe the Mission's corrective actions have not been timely.

For example, five of the eight deficiencies identified in the 1997 FMFIA review were carried forward and reported in the 1998 FMFIA review. At the time of the preparation of the 1997 FMFIA report, October 1997, the Mission's corrective action plan identified the planned resolution date for the five deficiencies as December 31, 1997.

Thus, for the corrective action to be timely, all five of the deficiencies carried over to 1998 should have been closed by June 1998. However, this was not the case. Three of the five deficiencies remained open until February 1999, eight months late. Another deficiency remained open until September 1999,

fifteen months late. The last deficiency closure date could not be determined because no supporting documentation was available. However, as of October 1999, the final action on this deficiency was awaiting the Mission Director's signature.

The initial planned resolution date, December 31, 1997, may have not been a realistic date for the five deficiencies mentioned above because none of these deficiencies were resolved until 1999. This was confirmed through interviews with Mission staff. Also, during our review of MCRC activities and related documentation, we found no documentation supporting that the MCRC specifically discussed planned deficiency resolution dates, especially when the dates had been exceeded by several months. There is a lack of documentation tracking the dates when corrective actions are to be completed. The Mission needs to formalize the tracking system by which it monitors the corrective actions taken on identified control deficiencies. Specifically, the Mission should formalize the procedures for monitoring the dates of planned corrective actions and when the established dates are not met, document the explanations why and justify the establishment of new closure dates.

Without closely monitoring its planned corrective actions the Mission places its operations at greater risk by permitting identified unsatisfactory management controls to remain unchanged for excessive periods of time. Moreover, the Mission is not in compliance with USAID policy and procedures and OMB Circular No. A-123 concerning timely action to correct management control deficiencies.

**Documentation is needed
to support corrective action**

OMB Circular No. A-123 and USAID guidance require that management control assessments be performed to identify deficiencies in agency programs and operations and that corrective action plans be developed to track the agency's progress in resolving the identified deficiencies. Although USAID/Ghana had identified management control weaknesses and developed a system to track corrective actions, the system did not, in all cases, identify when corrective actions were completed. This occurred because the Mission's system to record the correction of a deficiency was not being used consistently and there was no formal requirement for the submission of a closure memorandum describing the corrective

action that was taken. As a result, the Mission does not have documentary support for the correction of identified management control deficiencies.

Recommendation No. 2: We recommend that USAID/Ghana amend the Mission's Manual Orders adding a requirement for the submission of a closure memorandum to the Mission's Management Control Review Committee for approval/disapproval for each identified control weakness. In addition, the closure memorandums should be maintained in a central location under the control of the Mission's Management Control Officer.

OMB Circular No. A-123 and USAID guidance, ADS Chapter 596, Management Accountability and Control, Section 596.3, state that agency managers are responsible for taking timely and effective action to correct deficiencies identified. Furthermore, corrective action plans should be developed and tracked internally by each assessable unit. Missions are not required to report non-material weaknesses to the next level of management; that is, the cognizant Assistant Administrator, but are still required to take timely and effective action to correct the deficiencies.

We reviewed the actions the Mission took to resolve the deficiencies identified in its Fiscal Years 1997 and 1998 FMFIA reviews. In its Fiscal Year 1997 review, the Mission identified eight deficiencies, all of which it considered to be non-material weaknesses. Appropriately, the Mission developed internal corrective action plans, but five of the eight deficiencies were carried forward and reported in the 1998 FMFIA review.

In its Fiscal Year 1998 review, the Mission identified 17 non-material deficiencies, including the five deficiencies carried forward from 1997. As of October 1999, we found through our review of the Mission documentation, i.e. minutes of MCRC meetings and other internal memorandums, and discussions with Mission staff, that all deficiencies had been identified as having been corrected. However, for two² of the deficiencies there was no written documentation

² (#10) The validity of data reported on performance indicators is reasonably verified, including that furnished by other organizations and (#2) Responsibility is assigned to the lowest level at which it can be effectively discharged, and authority is delegated consistent with assigned responsibility.

supporting the MCRC's approval of the completed corrective action. Thus it was unclear whether the deficiencies had actually been corrected. This happened because the Mission did not have a formal system to adequately document the completed corrective actions on deficiencies. Such documentation would show that the MCRC reviewed the actions taken and determined that they were sufficient to correct the deficiencies.

Although the Mission conducts MCRC meetings to discuss outstanding deficiencies the minutes of the meetings do not consistently discuss the corrective actions taken and indicate MCRC approval of completed actions. During our review of MCRC documentation we noted the Mission's recent use of "Request for Closure Memorandums" that provide details on corrective action taken on deficiencies and a signature block for the approval/disapproval of the MCRC chairman. We believe that if this system i.e., the use of memorandums, were formalized and used for the closing of each deficiency on a consistent basis the Mission's tracking system for deficiencies would be improved, thus avoiding the current condition of deficiencies being closed without supporting documentation. Moreover, all closure memorandums should be maintained in a central location controlled by the Mission's Management Control Officer.

Management Comments and Our Evaluation

USAID/Ghana concurred with both Recommendation Nos. 1 and 2 and in order to address the recommendations has issued Mission Order No. 723, dated December 28, 1999 titled, "Procedure for Resolution of Control Weaknesses Identified in FMFIA Reviews." This Mission Order requires the monitoring of corrective action plans and resolution dates and requires the submission of closure memorandums for completed corrective actions. Accordingly, RIG/Dakar believes that the Mission has made Management Decisions for both Recommendation Nos. 1 and 2 and has taken Final Action on both recommendations. No further action is needed.

SCOPE AND METHODOLOGY

Scope

We audited USAID/Ghana's implementation of the Federal Managers' Financial Integrity Act (FMFIA). The audit was performed in accordance with generally accepted government auditing standards and was conducted from October 18 through October 29, 1999, at USAID/Ghana.

We audited the Mission's Fiscal Year 1998 FMFIA assessment and deficiencies noted under its Fiscal Year 1997 assessment. The purpose of the audit was not designed to identify all the material weaknesses not reported by the Mission; however, if any previously unreported weaknesses came to our attention during the audit, we included these in our audit report. Also, the scope of this audit did not include a detailed analysis of individual management controls to determine their effectiveness.

Methodology

The audit work included reviewing the Mission's system for establishing, assessing, reporting and correcting management controls. To accomplish the audit objectives we used the FMFIA, Office of Management and Budget Circular No. A-123, General Accounting Office's (GAO) "Standards for Internal Control in the Federal Government," USAID's Automated Directives System (ADS) Chapter 596 on Management Accountability and Control, and guidance for assessing the adequacy of management controls and annual instructions for reporting the status of management controls provided to missions by USAID.

We developed and used a questionnaire when interviewing the Mission's Management Control Official, members of the mission's Management Control Review Committee and operating unit managers. We also reviewed available documentation on the Fiscal Year 1998 FMFIA review, including the listing of

management control deficiencies and management action plans for correcting those deficiencies. We reviewed the Mission's Fiscal Year 1998 FMFIA Certification to the Assistant Administrator for Africa on the overall adequacy and effectiveness of management controls, noted any material weaknesses identified, and reviewed the status of any material weaknesses or deficiency identified in the Fiscal Year 1997 review.

Finally, we reviewed recent Office of Inspector General audit reports performed at USAID/Ghana and evaluations performed at the USAID/Ghana to identify potential material weaknesses.

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January 13, 1999

Henry Barrett
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C/O AMERICAN EMBASSY
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Dakar Senegal

Dear Mr. Barret,

**Audit of USAID/Ghana's Implementation of the Federal Manager's
Financial Integrity Act, Report No 7-641-00x-P.**

The purpose of this letter is to provide Mission's written comments on the subject audit report.

Recommendation No. 1: We recommend that USAID/Ghana establish documented procedures to ensure that the Management Control Review Committee monitors the corrective action plan resolution dates and those instances when the corrective action is not completed by the original resolution date, document why the resolution dates were not met and revise the target resolution dates accordingly.

Mission's Comments: Mission concurs with the recommendation.

Action Taken: Mission has issued a Mission Order No. 723 titled "PROCEDURE FOR THE RESOLUTION OF CONTROL WEAKNESSES IDENTIFIED IN FMFIA REVIEWS". (Copy attached). This Mission Order requires that Activity Managers document closure procedures and ensure that the Management Control and Review Committee monitor the corrective action and plan resolution dates.

In addition, the MCRC at its quarterly meeting held on January 12, 2000 reviewed outstanding items in accordance with the new mission order by requesting that all open items identified during the FY 99 FMFIA review be closed by March 30, 2000.

Recommendation No. 2: We recommend that USAID/GHANA amend the Mission's Manual Orders adding a requirement for the submission of a closure

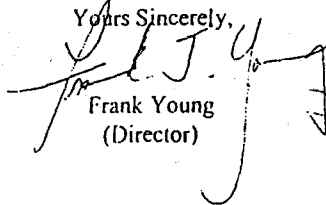
memorandum to the Mission's Management Control Review Committee for approval/disapproval for each identified control weakness.

In addition, the closure memorandums should be maintained in a central location under the control of the Mission's Management Control Officer.

Mission's comments: Mission concurs with the recommendation.

Action taken: Mission has issued a Mission Order No. 723 requiring submission of a closure memorandum to the Mission's Management Control Review Committee for approval/disapproval for each identified control weakness. Additionally, closure memorandums are now located in a central location under the control of the Mission's Management Control Officer.

Yours Sincerely,

A handwritten signature in dark ink, appearing to read 'F. Young', is written over the typed name. The signature is stylized with a large 'F' and a long horizontal stroke.

Frank Young
(Director)